

**WFUM-TV
(A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE UNIVERSITY OF MICHIGAN)**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007 and 2006
with
REPORT OF INDEPENDENT AUDITORS**

WFUM-TV
(A PUBLIC TELECOMMUNICATIONS ENTITY
OPERATED BY THE UNIVERSITY OF MICHIGAN)

June 30, 2007 and 2006

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Report of Independent Auditors

The Regents of the University of Michigan

In our opinion, the accompanying statement of net assets and the related statements of revenues, expenses and changes in net assets and of cash flows present fairly, in all material respects, the financial position of WFUM-TV (“Michigan Television”) at June 30, 2007 and 2006, and the revenues, expenses and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of Michigan Television’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The Management’s Discussion and Analysis (“MD&A”) on pages 2 through 12 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

January 22, 2008

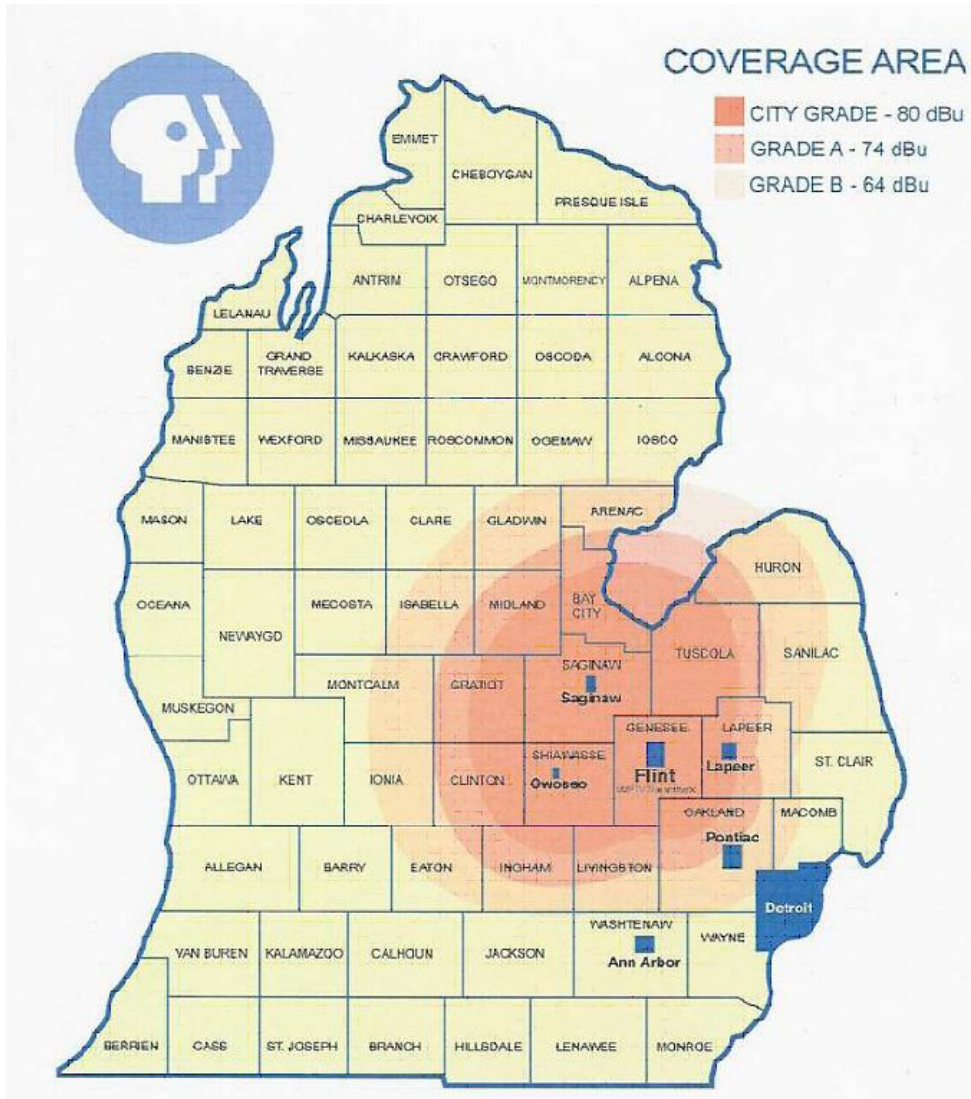
WFUM-TV
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Management’s Discussion and Analysis (Unaudited)

Introduction

The following discussion and analysis provides an overview of the financial position of WFUM-TV (“Michigan Television”) at June 30, 2007 and 2006 and its activities for the three fiscal years ended June 30, 2007. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

Michigan Television, a public television station operating on channel 28 (digital channel 52), is licensed by the Federal Communications Commission and operates under control of the Regents of the University of Michigan (the “University”) through its Michigan Public Media unit.



Recognized as Michigan Television, WFUM-TV reaches over 3.3 million households in more than 200 cities in southeast and mid-Michigan from its broadcast facilities in Flint, Michigan. As a member of the Public Broadcasting Service (“PBS”) and the Michigan Association of Public Broadcasters, Michigan Television presents high-quality national and local public programs.

Michigan Television’s viewing audience by county is summarized as follows:

- Oakland: 29%
- Wayne: 17%
- Genesee: 14%
- Macomb: 12%
- Washtenaw: 10%
- Other: 18%

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Management’s Discussion and Analysis (Unaudited) -- Continued

Over the past three years, Michigan Television has successfully grown its audience viewership by 37 percent in southeast Michigan:

WFUM-TV -- Average Weekly Viewers

2007	2006	2005
218,857	175,926	159,929

Source: Nielsen County Coverage Report: Average Quarter Hour (AQH),
 Average Weekly Viewers (Full week, Mon-Sun, 7am-1am)

Michigan Television’s programs and activities comprise researching, producing and airing local programs, as well as airing national and international programs aligned with Michigan Television’s mission. Recent program accomplishments include developing and airing several short-form programs on Michigan arts and humanities as well as the following programs:

- ***Where Do the Children Play?*** – a documentary recently accepted for future national distribution through American Public Television, explores how unrestricted development has impacted children’s physical and mental health in both inner city and suburban environments.
- ***Childhood Spaces, Secret Places*** – features Flint native and children’s author Christopher Paul Curtis, as well as a panel discussion on local issues of play and play accessibility, to give a Flint-specific perspective on the issues of play.

Michigan Television also engages in outreach that augments the University’s academic service to its campuses and to the greater community. Ready to Learn, the primary outreach program, provides greatly needed literacy workshops and free book distributions to families in underserved segments of the population. In 2007, the project’s eighth year of service, Michigan Television provided over 100 workshops and distributed over 5,000 books, reaching just over 2,000 participants in the program. Other recent outreach activities included Michigan Television providing the University of Michigan-Flint Office of Educational Opportunity Initiatives with the documentary *Hip Hop: Beyond Beats and Rhymes*, as the springboard for the 2006 Flint Hip Hop conference, aimed at teens and examining Hip Hop culture. Michigan Television also has an ongoing partnership with the Ann Arbor District Library providing film screenings and discussions to the community. This program uses television programming as a resource for real world exploration of diverse and complex issues to extend the Michigan Television mission and to support positive impacts related to pressing community needs. Future outreach plans include the expansion of the Ready to Learn program to include math and science components and a new Ready to Live program that focuses on health and wellness issues in early childhood.

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Management's Discussion and Analysis (Unaudited) -- Continued

At the 2007 award ceremony held by the Michigan Chapter of the National Academy of Television Arts and Sciences, Michigan Television received five Michigan Emmy awards for 2006 programming, a new station milestone, by winning several top awards in the categories of cultural affairs and segment writing. The Michigan Emmy awards received by Michigan Television included the following programs:

- ***The Howell Opera House*** – this feature story provides a brief look into the golden days [1880-1924] of small town opera houses, most of which are now extinct, except in Howell, Michigan where the renewal of a historic treasure is underway.
- ***Front Porch Theatre*** – this documentary chronicles the coming together of present and past residents of Flint, Michigan to share stories of their neighborhoods – and forge new connections in a city beset by serious economic challenges and historic racial segregation.
- ***Making Genes Dance*** – this short film examines the year-long engagement of nationally renowned dance company Liz Lerman Dance Exchange with various arts and civic organizations in Flint, Michigan. Together they explore topics of the human genome, raising issues and concerns which the dance troupe integrated into their nationally touring dance performance.
- ***Whitefish Point Lighthouse*** – this feature story features the historical significance and human drama of the people who dedicated their lives to the safety of others via the lighthouse is explored. With the use of some recreated scenes of the lighthouse keeper at work, and historical footage of crews rescuing ships, the drama heightens in this depiction of the far northern outpost on Lake Superior, very near the scene of the Edmund Fitzgerald disaster.
- ***FIA Opening*** – this feature story reveals the beautiful expansion of the Flint Institute of Arts, a truly magnificent art museum for a city of Flint's size. Sweeping videography techniques provide added dimension to the gorgeous new galleries.

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Management’s Discussion and Analysis (Unaudited) -- Continued

Financial Highlights

At June 30, 2007, Michigan Television had assets of \$3.3 million and liabilities of \$826,000 compared to assets of \$3.0 million and liabilities of \$792,000 at June 30, 2006. Net assets, which represent the residual interest in Michigan Television’s assets after liabilities are deducted, increased \$342,000 in 2007, to \$2.5 million at June 30, 2007. Changes in net assets represent Michigan Television’s results of operations and are summarized for the years ended June 30, 2007 and 2006 as follows:

	2007	2006
	(in thousands)	
Operating revenues	\$ 1,467	\$ 1,250
Operating expenses	3,830	3,600
	(2,363)	(2,350)
Private gifts	657	610
General University appropriations	400	500
Other nonoperating revenues	580	385
	(726)	(855)
Other revenues	1,068	93
Increase (decrease) in net assets	\$ 342	\$ (762)

Pursuant to a plan which commenced in 2004, the University has annually reduced its appropriations to Michigan Television in expectation of corresponding annual growth in membership (private gifts) and underwriting revenues, which has not been achieved as of June 30, 2007. Appropriations from the University totaled \$900,000 in 2003 as compared to \$400,000 in 2007 and \$500,000 in 2006.

Overall performance increased \$1.1 million in 2007, primarily due to increases in capital grants of \$1.0 million received for the purpose of creating a new, upgraded Broadcast Operations Center. This project will replace obsolete master control equipment with state-of-the-art digital equipment, enabling Michigan Television to achieve more robust utilization of current digital capabilities and greater operating efficiencies. This project will be completed in 2008 and is primarily being funded with grant awards.

Using the Financial Statements

Michigan Television’s financial report includes three financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. These financial statements are prepared in accordance with Governmental Accounting Standards Board (“GASB”) principles.

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Management's Discussion and Analysis (Unaudited) -- Continued

Statement of Net Assets

The statement of net assets presents the financial position of Michigan Television at the end of the fiscal year and includes all assets and liabilities of Michigan Television. The difference between total assets and total liabilities — net assets — is one indicator of the current financial condition of Michigan Television, while the change in net assets is an indication of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation and amortization. A comparison of Michigan Television's assets, liabilities and net assets at June 30, 2007 and 2006 is summarized as follows:

	2007	2006
	(in thousands)	
Current assets	\$ 98	\$ 280
Noncurrent assets:		
Capital assets, net	3,243	2,685
Total assets	3,341	2,965
Current liabilities:		
Deferred revenue	479	574
Other current liabilities	347	218
Total liabilities	826	792
Net assets	\$ 2,515	\$ 2,173

Current assets consist primarily of accounts receivable and premium inventory at June 30, 2007. At June 30, 2006, current assets consisted primarily of cash and cash equivalents and accounts receivable. Growth in noncurrent assets represents an increase in construction in progress related to the Broadcast Operations Center capital project which is primarily being funded by capital grants. Current liabilities consist primarily of deferred revenue, which represents amounts received in advance of providing services. Other current liabilities consist primarily of accrued compensation, accounts payable and amounts payable to the University of Michigan at June 30, 2007. At June 30, 2006, other current liabilities consisted primarily of accrued compensation and accounts payable.

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Management's Discussion and Analysis (Unaudited) -- Continued

Net assets represent the residual interest in Michigan Television's assets after liabilities are deducted. The composition of Michigan Television's net assets at June 30, 2007 and 2006 is summarized as follows:

	2007	2006
	(in thousands)	
Invested in capital assets, net of related debt	\$ 3,243	\$ 2,685
Restricted expendable	100	
Unrestricted	(828)	(512)
	\$ 2,515	\$ 2,173

Statement of Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents Michigan Television's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as either operating or nonoperating. A comparison of Michigan Television's revenues, expenses and changes in net assets for the three years ended June 30, 2007 is summarized as follows:

	2007	2006	2005
	(in thousands)		
Operating revenues	\$ 1,467	\$ 1,250	\$ 1,723
Operating expenses	3,830	3,600	4,453
Operating loss	(2,363)	(2,350)	(2,730)
Nonoperating and other revenues (expenses):			
Private gifts	657	610	536
General University appropriations	400	500	600
Indirect administrative support	615	587	963
Capital grants	1,053	51	
Transfers from Michigan Radio	15	42	140
Other	(35)	(202)	(9)
Nonoperating and other revenues, net	2,705	1,588	2,230
Increase (decrease) in net assets	342	(762)	(500)
Net assets, beginning of year	2,173	2,935	3,435
Net assets, end of year	\$ 2,515	\$ 2,173	\$ 2,935

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Management's Discussion and Analysis (Unaudited) -- Continued

The following table presents a comparative summary of Michigan Television's operating revenues for the three years ended June 30, 2007:

	2007	2006	2005
	(in thousands)		
Corporation for Public Broadcasting grants	\$ 809	\$ 727	\$ 699
Production services	293	167	541
Premium sales	171	130	105
Underwriting	123	125	208
Trade	20	45	131
Other	51	56	39
	\$ 1,467	\$ 1,250	\$ 1,723

Operating revenues increased \$217,000 in 2007 to \$1.5 million. This increase is primarily the result of increased production services activity and grant revenue from the Corporation for Public Broadcasting.

Operating revenues decreased \$473,000 in 2006 to \$1.2 million. This decrease is primarily the result of a decrease in production services revenue, which represents grant funding for specific locally produced programs and short-form productions. Several one-time special funded television projects completed their production cycle in 2005 and were not replaced.

Trade and underwriting revenues decreased \$169,000 in 2006 to \$170,000 as Michigan Television focused on strengthening internal controls by establishing new pricing policies and tighter rate standards. This change impacted underwriting and trade revenues by eliminating many previous below market rate contracts and more clearly defining situations where trade (in-kind barter-type) agreements to provide goods and services are appropriate in exchange for on-air credit announcements.

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Management's Discussion and Analysis (Unaudited) -- Continued

The following table presents a comparative summary of Michigan Television's operating expenses for the three years ended June 30, 2007:

	2007	2006	2005
	(in thousands)		
Direct:			
Programming and production	\$ 1,628	\$ 1,587	\$ 1,786
Engineering	754	647	790
Creative services	230	263	297
Development	336	310	376
Management and general	267	206	335
	3,215	3,013	3,584
Indirect:			
Programming and production	261	265	433
Engineering	220	193	192
Creative services	37	44	72
Development	54	51	91
Management and general	43	34	81
	615	587	869
Total operating expenses	\$ 3,830	\$ 3,600	\$ 4,453

Direct operating expenses increased \$202,000 in 2007 to \$3.2 million, primarily due to increases in engineering and management and general related expenses. Direct operating expenses decreased \$571,000 in 2006 to \$3.0 million, primarily due to the decline in grant funding for specific locally produced programs.

Indirect administrative support represents an allocated amount for donated facilities, physical plant support and institutional support incurred by the University on behalf of Michigan Television and is reflected as both indirect operating expense and nonoperating revenue. Indirect expenses decreased \$282,000 in 2006 as Michigan Television developed and implemented a more refined methodology to allocate indirect administrative support provided by the University to Michigan Television.

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Management's Discussion and Analysis (Unaudited) -- Continued

Statement of Cash Flows

The statement of cash flows provides additional information about Michigan Television's financial results by reporting the major sources and uses of cash. A comparative summary of the statement of cash flows for the years ended June 30, 2007 and 2006 is as follows:

	2007	2006
	(in thousands)	
Cash received from operations	\$ 1,379	\$ 1,415
Cash expended for operations	(2,744)	(2,466)
Net cash used in operating activities	(1,365)	(1,051)
Net cash provided by (used in) capital financing activities	59	(101)
Net cash provided by noncapital financing activities	1,183	1,135
Net decrease in cash and cash equivalents	(123)	(17)
Cash and cash equivalents, beginning of year	123	140
Cash and cash equivalents, end of year	\$ -	\$ 123

Economic Factors That Will Affect the Future

To meet the challenges of the future, Michigan Television must take into account many influences outside its control. The health of the national, state and local economy, for example, can have a significant impact on funding available for public television from a broad range of sources including the Corporation for Public Broadcasting, corporate and federal sponsors, private giving and the University.

Michigan Television has enjoyed progress with viewer membership fundraising campaigns; however, it is mindful of the fact that revenue that is dependent on the giving ability of its membership can fluctuate with economic conditions. The strength of Michigan Television's programming, the success of viewer membership fundraising campaigns and the consistency in audience viewership are important foundations to build on as Michigan Television looks to grow other sources of revenue.

In April 2007, Michigan Television extended its cable coverage reach with the addition of clearance on the Charter Communications system serving Bay City and Midland, Michigan. This coverage was secured after research showed Michigan Television's must-carry signal had been ignored and not carried on those systems. The addition of these communities allows Michigan Television to be viewed by 25,000 more cable households for the first time. This expansion holds potential for viewership growth, member acquisition and possible corporate underwriting sponsorships.

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Management's Discussion and Analysis (Unaudited) -- Continued

In 2007, a reorganization of the corporate underwriting department of Michigan Television brought new leadership to develop strategy and focused execution for future underwriting revenue growth. The overall underwriting decline in 2007 was driven by select larger contracts that were booked in total in 2006 but contained non-revenue generating announcement obligations into the following year. Current and ongoing emphasis is being given to establish sustaining underwriting relationships with accounts that understand the value and impact of the public television viewership. Michigan Television expects to show steady growth in underwriting revenue generation in the coming fiscal year.

Because of Michigan Television's importance to its mid Michigan and southeast Michigan viewing area, generous capital expenditure funding from the C.S. Mott Foundation has allowed the technical infrastructure to be upgraded to industry state-of-the-art digital delivery standards. During late fiscal year 2007, Michigan Television continued its final stages of work on a new \$1.3 million digital broadcasting conversion project to replace obsolete master control equipment with state-of-the-art digital equipment and create a new Broadcast Operations Center. As part of this digital conversion project, Michigan Television relocated its Broadcast Operations Center from its former location at the Mott Community College to the William S. White Building on the University's Flint campus where the rest of Michigan Television is currently located. The new Broadcast Operations Center is scheduled to be completed in October 2007. Additionally, in August 2007, Michigan Television anticipates the move of its downlink satellite dish onto the University's Flint campus adjacent to the building where Michigan Television is housed. This move will save Michigan Television \$33,000 per year in rent costs.

Other advantages for Michigan Television, and its viewers, from this digital conversion project include the potential to program multiple channel streams for current and future program service expansion. During fiscal years 2008 and 2009, Michigan Television will complete a digital re-channelization project to achieve full compliance with a federal digital conversion mandate. This project, which will convert WFUM-TV from digital television ("DT") channel 52 to its longtime channel 28 (DT 28 in the digital environment), will cost approximately \$215,000. This project will be primarily funded by the Corporation for Public Broadcasting. Additional funding support from foundations and corporate programs is currently pending. As required by federal regulations, Michigan Television intends to complete this project by February 2009, at which time the channel 28 analog signal will be permanently retired, leaving the DT 28 digital signal in its place with the capability of several channels of video program services. The timing of the digital transition conversion is subject to final technical approvals from the Federal Communications Commission and is expected to be resolved by fall 2008.

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Management's Discussion and Analysis (Unaudited) -- Continued

Michigan Television expects its membership development progress, development reorganization and digital conversion to provide a solid foundation to facilitate growth of its public television program service to the southeast Michigan viewership area. The conversion from analog to digital technology is enabling Michigan Television to plan a new generation of content potential across several available digital distribution streams. The mandated retirement of all analog television signals will occur by February 2009 with Michigan Television poised to offer its local and national programming in the digital environment.

Pursuant to a plan which commenced in 2004, University appropriations will continue to be reduced annually until 2009, when support will total \$200,000. This planned reduction in University appropriations was in expectation of corresponding annual increases in underwriting and private giving, which thus far have not been realized to the extent anticipated in the plan.

In response to the need for an updated strategic long term operational funding plan for Michigan Television, an Oversight Advisory Committee was formed in 2007. This committee of executive officers, appointed by the University's President, oversees the Michigan Public Media assets, including Michigan Television. The group is evaluating the financial challenges of the current funding model for Michigan Television and is actively working to research and recommend improvements. With strategic direction dedicated to audience growth, revenue development and program service enhancement, Michigan Television is focused to execute a responsible, reasonable plan for timely growth and appropriate operational efficiencies that translate to sustainability for future years.

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Statement of Net Assets

	June 30,	
	2007	2006
Assets		
Current Assets:		
Cash and cash equivalents on deposit with the University of Michigan		\$ 123,445
Accounts receivable, net	\$ 27,689	105,042
Pledges receivable, net	8,799	13,248
Premium inventory	56,540	33,510
Prepaid expenses	5,365	5,275
Total Current Assets	98,393	280,520
Noncurrent Assets:		
Capital assets, net	3,243,298	2,684,698
Total Assets	\$ 3,341,691	\$ 2,965,218
 Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 74,737	\$ 103,998
Payable to the University of Michigan	141,674	
Accrued compensation and other	130,747	114,645
Deferred revenue	479,411	573,581
Total Liabilities	826,569	792,224
Net Assets:		
Invested in capital assets, net of related debt	3,243,298	2,684,698
Restricted expendable	99,594	
Unrestricted	(827,770)	(511,704)
Total Net Assets	2,515,122	2,172,994
Total Liabilities and Net Assets	\$ 3,341,691	\$ 2,965,218

The accompanying notes are an integral part of the financial statements.

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**Statement of Revenues, Expenses
and Changes in Net Assets**

	Year Ended June 30,	
	2007	2006
Operating Revenues		
Corporation for Public Broadcasting grants	\$ 809,486	\$ 726,986
Production services	293,031	167,132
Premium sales	171,394	129,481
Underwriting	122,695	125,242
Royalty income	20,898	22,168
Rental income	20,843	16,539
Trade	20,055	44,418
Other	8,723	17,548
Total Operating Revenues	1,467,125	1,249,514
Operating Expenses		
Program Services:		
Programming and production	1,889,165	1,851,626
Engineering	973,712	839,942
Creative services	267,682	306,790
Total Program Services	3,130,559	2,998,358
Supporting Services:		
Development	389,515	360,942
Management and general	310,107	240,735
Total Supporting Services	699,622	601,677
Total Operating Expenses	3,830,181	3,600,035
Operating loss	(2,363,056)	(2,350,521)
Nonoperating Revenues (Expenses)		
Private gifts	657,303	610,378
General appropriations from the University of Michigan	400,000	500,000
Indirect administrative support from the University of Michigan	615,055	587,266
Interest expense, net	(35,214)	(9,483)
Other		(192,207)
Total Nonoperating Revenues, Net	1,637,144	1,495,954
Loss before other revenues	(725,912)	(854,567)
Other Revenues		
Capital grants	1,053,273	50,784
Transfers from Michigan Radio	14,767	42,000
Total Other Revenues	1,068,040	92,784
Increase (decrease) in net assets	342,128	(761,783)
Net Assets, Beginning of Year	2,172,994	2,934,777
Net Assets, End of Year	\$ 2,515,122	\$ 2,172,994

The accompanying notes are an integral part of the financial statements.

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Statement of Cash Flows

	Year Ended June 30,	
	2007	2006
Cash Flows from Operating Activities		
Corporation for Public Broadcasting grants	\$ 780,486	\$ 748,595
Production services	301,906	328,618
Premium sales	171,394	129,481
Underwriting	89,219	156,157
Royalty income	20,898	22,168
Rental income	6,843	13,132
Other	8,723	17,550
Payments for salaries and benefits	(1,389,744)	(1,381,086)
Payments for program rights	(715,428)	(565,981)
Payments for operating and administrative expenses	(639,449)	(519,145)
Net Cash Used in Operating Activities	(1,365,152)	(1,050,511)
Cash Flows from Capital Financing Activities		
Purchases of capital assets	(1,045,328)	(100,667)
Capital grants	1,104,057	
Net Cash Provided by (Used in) Capital and Related Financing Activities	58,729	(100,667)
Cash Flows from Noncapital Financing Activities		
Private gifts	661,751	602,079
General appropriations from the University of Michigan	400,000	500,000
Interest expense, net	(35,214)	(9,483)
Transfers from Michigan Radio	14,767	42,000
Loans from the University of Michigan	141,674	
Net Cash Provided by Noncapital Financing Activities	1,182,978	1,134,596
Net decrease in cash and cash equivalents	(123,445)	(16,582)
Cash and Cash Equivalents, Beginning of Year	123,445	140,027
Cash and Cash Equivalents, End of Year	\$ -	\$ 123,445

The accompanying notes are an integral part of the financial statements.

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Statement of Cash Flows--Continued

	Year Ended June 30,	
	2007	2006
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,363,056)	\$ (2,350,521)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Indirect administrative support from the University of Michigan	615,055	587,266
Depreciation and amortization expense	486,728	439,996
Changes in assets and liabilities:		
Accounts receivable, net	26,569	183,339
Premium inventory	(23,030)	(2,691)
Prepaid expenses	(90)	(1,674)
Accounts payable	(29,261)	89,773
Accrued compensation and other	16,103	(23,264)
Deferred revenue	(94,170)	27,265
Net cash used in operating activities	\$ (1,365,152)	\$ (1,050,511)

The accompanying notes are an integral part of the financial statements.

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Notes to Financial Statements

June 30, 2007 and 2006

Note 1--Organization and Summary of Significant Accounting Policies

Organization and Basis of Presentation: WFUM-TV is a public telecommunications entity licensed by the Federal Communications Commission and operated by the University of Michigan (the "University") through its Michigan Public Media unit. WFUM-TV, channel 28 (digital channel 52), is recognized as Michigan Television and reaches over 3.3 million households in more than 200 cities in southeast and mid-Michigan from its broadcast facilities in Flint, Michigan. As a member of the Public Broadcasting Service ("PBS") and the Michigan Association of Public Broadcasters, WFUM-TV presents high-quality national and local public programs. WFUM-TV is committed to providing information, life-long learning and entertainment to the communities it serves.

WFUM-TV ("Michigan Television") operates under the control of the University's Board of Regents (the "Regents") and, in connection therewith, utilizes assets, title to which is vested in the Regents. As part of the University, Michigan Television is exempt from income taxes under Internal Revenue Code Sections 501(c)(3) and 115. The assets, liabilities, revenues, expenses and changes in net assets of Michigan Television are included in the consolidated financial statements of the University.

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"), and the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Audits of State and Local Governments*. Michigan Television has the option of applying pronouncements issued by the Financial Accounting Standards Board ("FASB") after November 30, 1989, provided that such pronouncements do not conflict or contradict GASB pronouncements. Michigan Television has elected not to apply any FASB pronouncements issued after the applicable date.

Net assets are categorized as:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation, amortization and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted expendable: Net assets whose use by Michigan Television is subject to externally imposed stipulations that can be fulfilled by actions of Michigan Television pursuant to those stipulations or that expire by the passage of time.
- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Regents or may otherwise be limited by contractual agreements with outside parties.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

Summary of Significant Accounting Policies: The accompanying financial statements have been prepared on the accrual basis. Michigan Television reports as a special purpose government entity engaged primarily in business type activities, as defined by GASB Statement No 35. Business type activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

For purposes of the statement of cash flows, Michigan Television considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents are those funds invested in the University Investment Pool ("UIP") that can be readily liquidated to pay contractual liabilities.

Michigan Television finances its working capital requirements through participation in the UIP. Draws from the UIP vary throughout the year based on the timing of Michigan Television's cash flows. Michigan Television is charged interest on its borrowings from the University and earns interest on its funds on deposit with the University. The interest rate is adjusted quarterly based on the U.S. Treasury Bill rate, which was 5.12 percent and 4.51 percent at June 30, 2007 and 2006, respectively. Michigan Television paid net interest expense of \$35,214 and \$9,483 for the years ended June 30, 2007 and 2006, respectively. Outstanding borrowings are reflected as a payable to the University of Michigan and amount to \$141,674 at June 30, 2007.

Michigan Television receives pledges and bequests of financial support from corporations, foundations and individuals. Revenue is recognized when a pledge representing an unconditional promise to pay is received and all eligibility requirements, including time requirements, have been met. In the absence of such a promise, revenue is recognized when the gift is received. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential uncollectible amounts. The determination includes such factors as prior collection history, type of gift and nature of fundraising.

Premium inventory consists of promotional items held for distribution to the general public in exchange for membership contributions. Inventory is stated at the lower of cost or market.

Capital assets are recorded at cost or, if donated, at appraised value at the date of donation. Depreciation of capital assets is provided on a straight-line basis over the estimated useful lives of the respective assets, which range from three to forty years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the related lease term. Michigan Television capitalizes all expenditures for land, buildings, equipment and improvements in excess of \$5,000.

Accrued compensation consists of amounts earned for services performed that will be paid in the future.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

Deferred revenue consists primarily of cash received from underwriting and grant sponsors as well as cash received from a license agreement for access to Michigan Television's tower which has not yet been earned under the terms of the agreements.

Michigan Television's policy for defining operating activities as reported on the statement of revenues, expenses and changes in net assets are those that generally result from exchange transactions such as payments received for providing services and payments made for services or goods received. Nonexchange transactions are reported as nonoperating activities. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including private gifts, general appropriations from the University and indirect administrative support from the University.

Community Service and other grants are received from the Corporation for Public Broadcasting, a private, non-profit corporation that provides funding for public television and radio programming. Production services revenue represents grant funding of locally produced programs and short-form productions.

Membership contributions are recorded as premium sales and private gifts. Premium sales, which are considered operating revenues, represent the fair value of promotional items received by donors in exchange for membership contributions, and the balance of membership contributions is classified as private gifts, which are considered nonoperating revenues.

Underwriting revenue is received from corporate sponsors, non-profit organizations, and university departments and units for on-air credit announcements.

Trade revenue results from in-kind barter-type agreements with outside organizations which provide goods and services in exchange for on-air credit announcements. Trade revenue and related expenses approximate the fair value of the transactions.

Rental income represents income from licensing access to Michigan Television's tower.

Royalty income represents royalties from retail distribution of television productions.

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Notes to Financial Statements--Continued

Note 1--Organization and Summary of Significant Accounting Policies--Continued

General appropriations from the University provide direct support for operating expenses not provided through other sources. The University also provides indirect administrative support, which represents an allocated amount for donated facilities, physical plant support and institutional support incurred by the University on behalf of Michigan Television. Donated facilities consist of studio and administrative space, as well as related occupancy costs. Physical plant support includes transmitter utility costs remitted by the University on behalf of Michigan Television and plant expenses. Institutional support consists of allocated finance, human resources, development, technology, sponsored programs and certain other administrative costs. Indirect administrative support is reflected as nonoperating revenue and operating expense as incurred in the accompanying statement of revenues, expenses and changes in net assets. All support received from the University is recorded as nonoperating revenue.

Other nonoperating revenues in 2006 include a reduction for an out of period adjustment for deferred revenue of \$190,000 which is not considered material to the prior year.

Transfers from Michigan Radio provide direct support for operating expenses not provided through other sources.

The costs of providing various activities have been summarized on a functional basis in the statement of revenues, expenses and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting activities using an objective basis such as time spent, square footage and percentage of expenses. Creative services expense includes development of visual, print and electronic creative design, imagery and copy for over the air and external media marketing of Michigan Television.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications: Certain prior year amounts have been reclassified to conform with current year presentations.

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Notes to Financial Statements--Continued

Note 2--Accounts Receivable

The composition of accounts receivable at June 30, 2007 and 2006 is summarized as follows:

	2007	2006
Grants	\$ 20,867	\$ 60,167
Underwriting	2,970	47,235
Tower lease	4,000	
	<u>27,837</u>	<u>107,402</u>
Less provision for uncollectible accounts receivable	148	2,360
	<u>\$ 27,689</u>	<u>\$ 105,042</u>

Note 3--Pledges Receivable

The composition of pledges receivable at June 30, 2007 and 2006 is summarized as follows:

	2007	2006
Gift pledges outstanding	\$ 36,985	\$ 39,188
Less allowance for doubtfully collectible pledges	28,186	25,940
	<u>\$ 8,799</u>	<u>\$ 13,248</u>

Payments on pledges receivable at June 30 are expected to be received during the following fiscal year.

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Notes to Financial Statements--Continued

Note 4--Capital Assets

Capital assets activity for the years ended June 30, 2007 and 2006 is summarized as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 5,800			\$ 5,800
Transmitter, tower and building	2,909,147			2,909,147
Studio and other equipment	884,733	\$ 533,217	\$ 92,356	1,325,594
Leasehold improvements	484,054			484,054
Construction in progress	92,607	512,111		604,718
	4,376,341	1,045,328	92,356	5,329,313
Less accumulated depreciation and amortization	1,691,643	486,728	92,356	2,086,015
	<u>\$ 2,684,698</u>	<u>\$ 558,600</u>	<u>\$ -</u>	<u>\$ 3,243,298</u>

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 5,800			\$ 5,800
Transmitter, tower and building	2,909,147			2,909,147
Studio and other equipment	917,878	\$ 8,060	\$ 41,205	884,733
Leasehold improvements	484,054			484,054
Construction in progress		92,607		92,607
	4,316,879	100,667	41,205	4,376,341
Less accumulated depreciation and amortization	1,290,645	439,996	38,998	1,691,643
	<u>\$ 3,026,234</u>	<u>\$ (339,329)</u>	<u>\$ 2,207</u>	<u>\$ 2,684,698</u>

The U.S. Department of Commerce has a reversionary interest in studio and other equipment with an original cost of \$3,100,000 that was funded in part with various Public Telecommunications Facilities Program ("PTFP") grants received from the National Telecommunications and Information Administration. The reversionary interest in the equipment is pursuant to the terms of federal priority liens which extend through fiscal 2015, ten years after the equipment was placed in service.

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Notes to Financial Statements--Continued

Note 4--Capital Assets--Continued

During 2006, Michigan Television commenced a capital project to replace obsolete master control equipment with state-of-the-art digital equipment and create a new Broadcast Operations Center, which will enable Michigan Television to comply with federally mandated regulations for digital broadcasting. This \$1,300,000 project is being funded primarily by PTFP and other grants. A portion of the project totaling \$517,842 was placed in service during 2007. Construction in progress at June 30, 2007 of \$604,718 represents the remaining project components which are scheduled to be completed and placed in service in 2008.

Note 5--Contingencies and Commitments

Michigan Television is a party to various pending legal actions and other claims in the normal course of business, and is of the opinion that the outcome thereof will not have a material adverse effect on its financial position.

Michigan Television is obligated under various non-cancelable operating leases for facilities, land and copier machines. Rental expenses for operating leases totaled \$35,982 and \$38,840 for the years ended June 30, 2007 and 2006, respectively. The future minimum rental payments at June 30, 2007, required in connection with operating leases that have initial or remaining non-cancelable terms in excess of one year, are as follows:

2008	\$ 3,111
2009	2,495
2010	1,000
2011	1,000
2012	1,000
2013-2017	5,000
2018-2022	5,000
2023-2024	2,000
	<hr/>
	\$ 20,606
	<hr/>

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Notes to Financial Statements--Continued

Note 6--Retirement Plan

Michigan Television participates in the University's retirement plan, a defined contribution retirement plan through the Teachers Insurance and Annuity Association - College Retirement Equities Fund ("TIAA-CREF") and Fidelity Management Trust Company ("FMTC") mutual funds, for all qualified employees. All regular and supplemental staff are eligible to participate in the plan based upon age and service requirements. Participants maintain individual contracts with TIAA-CREF, or accounts with FMTC, and are fully vested.

Eligible employees generally contribute 5 percent of their pay and Michigan Television generally contributes an amount equal to 10 percent of employees' pay to the plan. Participants may elect to contribute additional amounts to the plan within specified limits that are not matched by Michigan Television contributions. Contributions and covered payroll under the plan (excluding participants' additional contributions) for the three years ended June 30, 2007 are summarized as follows:

	2007	2006	2005
Michigan Television contributions	\$ 83,230	\$ 87,222	\$ 84,494
Employee contributions	\$ 41,015	\$ 42,988	\$ 41,603
Payroll covered under plan	\$ 1,009,792	\$ 1,035,355	\$ 1,141,557
Total payroll	\$ 1,060,643	\$ 1,140,890	\$ 1,180,422

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Notes to Financial Statements--Continued

Note 7--Postemployment Benefits

In addition to the retirement benefits discussed in Note 6, the University and Michigan Television provide certain health care benefits and other postemployment benefits for retired employees. Substantially all of Michigan Television's employees may become eligible for those benefits if they reach retirement age while working for the University. The University and Michigan Television recognize the cost of providing these benefits on a pay-as-you-go basis. Michigan Television's allocated portion of this cost, which is included in operating expenses, totaled approximately \$16,000 and \$19,000 for the years ended June 30, 2007 and 2006, respectively.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, issued in June 2004, calls for the measurement and recognition of the cost of other postemployment benefits ("OPEB") during the periods when employees render their services. This statement also establishes more comprehensive disclosure for OPEB obligations. OPEB refers to postemployment benefits other than pension benefits and includes postemployment health care benefits and other types of postemployment benefits if provided separate from a pension plan. The University and Michigan Television are required to implement this statement in 2008, which will result in an increase in liabilities and a decrease in net assets to reflect the actuarially determined liability for OPEB. Based on current actuarial assumptions and presuming a continuation of the current level of benefits, the value of those benefits is estimated at \$795,000 at June 30, 2007. Statement No. 45 provides for various methods of calculating and recording the OPEB liability; accordingly, the liability recorded by the University and Michigan Television upon implementation may differ from current estimates.

**Report of Independent Auditors
on Supplementary Information**

The Regents of the University of Michigan

Our report on the audit of the financial statements of WFUM-TV as of June 30, 2007 and 2006 and the years then ended appears on page 1. That audit was conducted for the purpose of forming an opinion on the financial statements, taken as a whole, which are set forth on pages 13 through 25, inclusive. The supplementary information included herein on pages 27 and 28 is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

January 22, 2008

WFUM-TV
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**Schedule of Functional Expenses
For the Year Ended June 30, 2007**

	Program Services			Supporting Services			Total Operating Expenses	
	Programming and Production	Engineering	Creative Services	Total Program Services	Development	Management and General		Total Supporting Services
Salaries, payroll taxes and employee benefits	\$ 528,755	\$ 417,628	\$ 184,633	\$ 1,131,016	\$ 90,091	\$ 184,739	\$ 274,830	\$ 1,405,846
Indirect administrative support	261,352	219,885	37,032	518,269	53,886	42,900	96,786	615,055
Program fees	715,428			715,428			-	715,428
Depreciation and amortization	186,135	205,774	26,146	418,055	38,382	30,291	68,673	486,728
Professional services	142,879	20,704	2,508	166,091	46,096	39,677	85,773	251,864
Membership and dues	3,121			3,121	9,153		9,153	12,274
Supplies	7,891	57,313	4,702	69,906	4,025	1,944	5,969	75,875
Premium supplies				-	80,608		80,608	80,608
Advertising		257	3,970	4,227	20,420	200	20,620	24,847
Leased space	14,344	21,518	120	35,982			-	35,982
Travel and conferences	3,644	940	6,426	11,010	6,721	4,517	11,238	22,248
Repairs and maintenance	14,149	15,703	1,287	31,139	28,803	176	28,979	60,118
Telecommunications	5,960	4,504		10,464	712	3,936	4,648	15,112
Postage and freight	1,584	8,999	564	11,147	8,621	1,260	9,881	21,028
Other	3,923	487	294	4,704	1,997	467	2,464	7,168
Total Operating Expenses	\$ 1,889,165	\$ 973,712	\$ 267,682	\$ 3,130,559	\$ 389,515	\$ 310,107	\$ 699,622	\$ 3,830,181

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**Schedule of Functional Expenses
For the Year Ended June 30, 2006**

	Program Services			Supporting Services			Total Operating Expenses	
	Programming and Production	Engineering	Creative Services	Total Program Services	Development	Management and General		Total Supporting Services
Salaries, payroll taxes and employee benefits	\$ 520,574	\$ 398,226	\$ 227,768	\$ 1,146,568	\$ 76,030	\$ 135,224	\$ 211,254	\$ 1,357,822
Indirect administrative support	264,707	192,961	43,568	501,236	51,466	34,564	86,030	587,266
Program fees	673,427			673,427			-	673,427
Depreciation and amortization	198,064	153,924	23,231	375,219	34,167	30,610	64,777	439,996
Professional services	90,485	4,325	1,304	96,114	47,662	12,741	60,403	156,517
Membership and dues	7,603			7,603	85	14,000	14,085	21,688
Supplies	64,210	28,645	(2,049)	90,806	18,366	3,378	21,744	112,550
Premium supplies				-	84,624		84,624	84,624
Advertising	178		11,837	12,015	44,536		44,536	56,551
Leased space	400	38,215	225	38,840			-	38,840
Travel and conferences	9,019	1,398	1,824	12,241	11,361	1,383	12,744	24,985
Repairs and maintenance	8,069	15,047	103	23,219			-	23,219
Telecommunications	4,606	6,355		10,961	812	7,864	8,676	19,637
Postage and freight	559	273	706	1,538	14,325	966	15,291	16,829
Other	9,725	573	(1,727)	8,571	(22,492)	5	(22,487)	(13,916)
Total Operating Expenses	\$ 1,851,626	\$ 839,942	\$ 306,790	\$ 2,998,358	\$ 360,942	\$ 240,735	\$ 601,677	\$ 3,600,035